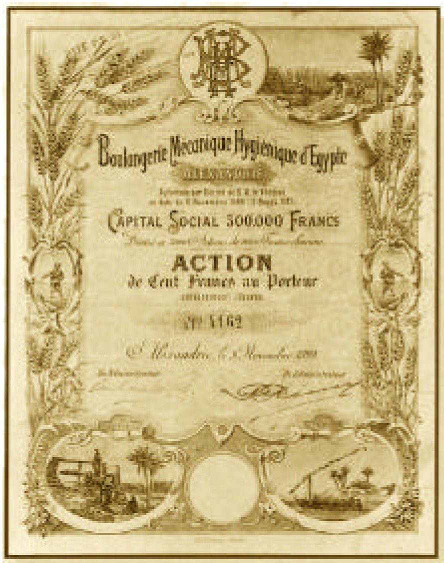

Private Equity Investing:

Venture/Development Capital Funds and Turnaround Funds

The Egypt Capital Markets Development Project

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A. Overview

Private equity investing can be defined broadly as investment by professional financial investors of long-term, equity finance without the benefit of the public-market liquidity afforded to portfolio investors. The focus of private equity investors is primarily long-term capital gains, at rates of return in excess of those commonly found in other investment securities, as opposed to interest income, dividend yield, and likely lower capital gains available in securities traded in public markets. Capital gains from private equity investments are realized only when there is a sale of the investors' interest in the company or investment, usually through a strategic sale or initial public offering (IPO). There is usually not a public market for the sale of these investments on a stock exchange.

Private equity investing usually takes two principal forms:

1. Investment in new companies or start-ups, commonly referred to as venture capital investments;

2. Investment is existing companies, either through providing expansion capital or in the form of a management buyout or direct private equity purchase of the shares of an existing company. In the case of expansion or development capital, if the investment is in a relatively new company it is often also characterized as venture capital.

Aggressive private equity investors are also known to invest in "turnaround funds," which seek to make investments in companies which are perceived to be undervalued and can be returned to profitability, or made more profitable through significantly altering the way the business of the company is managed. Typical approaches, among others, include changing the product mix and/or design, cutting labor or other costs, and changing marketing approaches of the company. Often management or leveraged buyouts by private equity investment funds exhibit characteristics of turnaround funds by targeting undervalued companies for their investments. Often these investments may focus more on under-valuation as opposed to turning around a company that is performing poorly.

Professionally managed private equity firms generally are private partnerships or closely held corporations funded by sophisticated investors, including private and public pension funds, endowment funds, foundations, corporations, wealthy individuals, foreign investors, bank holding companies, insurance companies, and investment banks.

Thus, private equity firms more often engage in the following activities than in other passive portfolio investors:

- Finance new and rapidly growing companies;
- Assist in the development of new products or services;
- Add management value to the company through active participation;
- Take higher risks with the expectation of higher rewards.

Providers of private equity/venture capital usually therefore support their investments by:

- Providing strategic, management, and financial advice;
- Having direct representation within a company's management team;
- Providing access to commercial networks and external market opportunities;
- Acting as a sounding board for new ideas and methods within a company.

There are a number of ways that private equity investors organize their investments, but most commonly, international private equity/venture capital investments are made through private equity and venture capital firms, or through the formation of a private equity fund by experienced investment management teams. The firms and investment managers usually invest capital through funds organized as limited partnerships in which the private equity/venture capital firm, or management company, serves as the general partner. Participants in private equity and venture capital investments most often therefore include:

- Traditional partnerships—which are often established by wealthy individuals to aggressively manage a portion of their funds by investing in small companies;

- Professionally managed pools—which are made up of institutional money and wealthy investors who operate like the traditional partnerships;

- Investment banking firms—which usually trade in more established securities, but occasionally form investor syndicates for private equity deals and venture capital proposals;

- Insurance companies—which sometimes require a portion of equity as a condition of their loans to smaller companies as a compensation for the risk of the loan, and in some markets as protection against inflation;

- Manufacturing companies—which have sometimes looked upon investing in smaller companies as a means of supplementing their R&D programs (some corporations have venture capital operations to help keep them abreast of technological innovations).

When considering an investment, private equity and venture capital firms and funds carefully screen the technical and business merits of the proposed company. This is an advantage usually not afforded investors in public companies, who only review publicly filed reports. Venture capitalists invest in the businesses they review favorably and have a longer-term perspective than portfolio investors. Typically, going forward, they actively work with the company's management by contributing their experience and business savvy gained from helping other companies with similar growth challenges.

Thus, private equity/venture capital investors tend to be more experienced business managers and investors than passive portfolio investors.

Venture capital firms often mitigate the risk of venture investing by diversifying their investments across a portfolio of companies in a single investment fund. Many times they will co-invest with other professional venture capital firms. In addition, many venture partnerships will manage multiple funds simultaneously. For decades, venture capitalists in the developed markets have nurtured the growth of high technology and entrepreneurial businesses resulting in significant job creation, economic growth, and international competitiveness.

In several surveys conducted in developed markets, the results show that venture capital is useful in improving the performance and growth of venture-backed companies, as well as making contribution to the overall economic performance, in the following aspects:

- Venture-backed companies increase jobs;
- Venture-backed companies, if successful, often grow quickly and boost the economy;
- Venture capital is an important source of funding for private and start-up companies;
- Venture-backed companies may out perform their counterparts in the economy in terms of sales and exports.

B. Key Facts About Private Equity and Venture Capital Investment

B1. Private Equity Investing

Private equity and venture capital investing has grown in the major international markets from a small investment pool in the 1960s and early 1970s to a mainstream asset class that is a viable and significant part of the institutional and corporate investment portfolio. Increasingly, investors have been referring to venture investing and private equity investing. Interchangeably, though typically venture capitalists invest more often in start-up and early stage companies, and private equity investors in later stage more seasoned companies or simply private companies needing more capital. In both cases, investors are looking for higher growth and returns than portfolio investors, to compensate them for the greater risks of early stage companies or the lack of liquidity when there is no ready market for their shares.

Currently, over 50% of the investments in venture capital/private equity comes from institutional public and private pension funds, with the balance coming from endowments, foundations, insurance companies, banks, individuals and other entities who seek to diversify their portfolio with this investment class. In emerging markets, where public markets are less developed and capital raising in public markets less common, private equity and venture capital investing is often a more common, though still hard to find, source of capital investment.

Thus, venture capital and private equity firms are really rather similar pools of capital that invest in companies that represent the opportunity for a high rate of return, with expectations of realizing these returns within five to seven years. The venture capitalist may look at several hundred investment opportunities before investing in only a few selected companies with favorable investment opportunities. Far from being simply passive financiers, venture capitalists foster growth in companies through their involvement in the management, strategic marketing, and planning on behalf of the companies in which they invest. They are more entrepreneurs than financiers, seeking high returns as opposed to steady dividends from steady growth. Target private equity and venture capital rates of return are at least in the 30% to 40% rate of return range, although private equity investors in more seasoned companies may target somewhat lower returns. While historically these rates of return were substantially higher than available in other public market investments, in recent years the extremely high returns available in many stock markets around the world have made these return targets seem much less aggressive.

B2. Length of Investment

As discussed, venture capital investors will help companies grow, but they eventually seek to exit investments in three to seven years. An early stage investment may take seven to ten years to mature, while a later stage investment may only take a few years, so the appetite for the investment life cycle must be congruent with the venture capital firms’ appetite for liquidity.

The venture investment is neither a short term nor a liquid investment, but an investment that must be made with careful diligence and expertise.

B3. Types of Firms

The most common type of venture capital or private equity firm is an independent firm usually made up of sophisticated investors who invest their own and third party money they raise and manage. The firms may or may not have affiliations with other financial institutions. Many venture firms are affiliates or subsidiaries of a commercial bank, investment bank, or insurance company and make investments on behalf of outside investors as well as the parent firm's clients. A relatively new and increasingly common set of firms are subsidiaries of non-financial, industrial corporations making investments on behalf of the parent itself. These latter firms are typically called "corporate venture investors" and have become most common in the technology sector.

The predominant form of organization in the major international markets is the limited partnership. Venture capital and private equity firms are usually organized as partnerships in a pooled fund—that is, a fund made up of a general partner with investors as limited partners. These funds are typically organized as fixed life partnerships, usually having a life of up to ten years. Each fund is capitalized by commitments of capital from the limited partners or investors. Once the partnership has reached its target size, the partnership is closed to further investment from new investors or even existing investors so the fund has a fixed capital pool from which to make its investments. The investors in the funds often have co-investment rights to allow the fund to make larger investments if attractive opportunities arise.

Like a mutual fund company, a venture capital/private equity firm may manage more than one fund at a time. Typically, these firms raise additional funds a few years after closing and successfully investing a first fund in order to continue to invest in companies and to provide more opportunities for existing and new investors. It is not uncommon to see a successful firm raise six or seven funds consecutively over the span of ten to fifteen years. Each fund is managed separately and has its own investors or limited partners and its own general partner. These funds' investment strategy may be similar to other funds in the firm. However, the firm may have one fund with a specific focus and another with a different focus and yet another with a broadly diversified portfolio. This depends on the strategy and focus of the venture firm itself.

B4. Corporate Venturing

One form of investing that is popular in the developed markets is corporate venturing. This is usually called "direct investing" in portfolio companies by subsidiaries of non-financial corporations. These investment vehicles seek to find qualified investment opportunities that are congruent with the parent company's strategic technology plans or that provide synergy or cost savings.

These corporate venturing programs may be loosely organized programs affiliated with existing business development programs or may be self-contained entities with a strategic charter and mission to make investments congruent with the parent's strategic mission. There are some venture firms that specialize in advising, consulting, and managing a corporation's venturing program.

The typical distinction between corporate venturing and other types of venture investment vehicles is that corporate venturing is usually performed with corporate strategic objectives in mind while other venture investment vehicles typically have investment return or financial objectives as their primary goal. This is a bit of a generalization as corporate venture programs are certainly not immune to financial considerations, but the distinction can be made.

The other distinction of corporate venture programs is that they usually invest their parent's capital while other venture investment vehicles invest outside investors' capital.

B5. Kinds of Risks

Venture capital investors face many risks in deciding to make initial investments and continue investing in portfolio firms. It can be useful to analyze the sources of these risks and attempt to identify and quantify them. One approach focusing on start-up investments identifies such risks as technical, exogenous, and traditional. These various risks come to play at different points in the development of firms. Technical risks dominate the seed investment and start-up stages. Firms are susceptible to exogenous risks at all stages of development, and the full effects of traditional risks become apparent as the firm moves through the final stages of the process.

Technical Risks. In a start-up research and development venture, technical uncertainty refers to the uncertainty associated with the success of the research itself required to push the firm beyond the development stage. An example would be the difficulty entailed in developing a new software product, which may or may not work under actual programming conditions.

Exogenous Risks. Exogenous risks are those associated with the competitiveness and/or possible obsolescence of the firm's final output or product. This sort of risk is especially great in rapidly evolving markets such as the computer and software industries.

Traditional Risks. Traditional risks are those related to the uncertainty about the costs and general demand conditions that determine the ultimate cash flows from the venture. In other words, fluctuations in the larger economy could affect supply and demand for the firm's final output. An unexpected economic recession (as opposed to the narrower threat posed by a competitor's product), for example, could cause a new venture to fail that in other times might succeed.

B6. Commitments and Fund Raising

The process that venture firms go through in seeking investment commitments from investors is typically called "fund raising." This should not be confused with the actual investment in investee or "portfolio" companies by the venture capital firms, which is also sometimes called "fund raising" by the investee companies. The commitments of capital are raised from investors during the formation of the fund. A venture firm will set out prospecting for investors with a target fund size. It will distribute an information memorandum or a prospectus to potential investors and may take from several weeks to several months to raise the requisite capital. The fund will seek commitments of capital from institutional investors, endowments, foundations, and individuals who seek to invest part of their portfolio in opportunities with a higher risk factor and commensurate opportunity for higher returns.

Because of the risk, length of investment, and illiquidity involved in venture investing, and because the minimum commitment requirements are so high, venture capital fund investing is generally out of reach for the average individual. The venture fund will have from a few to rarely more than 100 limited partners or investors depending on the target size of the fund. Once the firm has raised enough commitments, it will "close" and start making investments in portfolio companies.

C. Common Characteristics of Venture Capital Investment

C1. Illiquidity

Limited partners or investors make investments in venture funds knowing that the investment will be long-term. It may take several years before the first investments start to return proceeds; in many cases the invested capital may be tied up in an investment for seven to ten years. Limited partners understand that this illiquidity must be factored into their investment decision.

C2. Advisors and Funds

Evaluating which funds to invest in is akin to choosing a good stock manager or mutual fund, except the decision to invest is a long-term commitment. This investment decision takes considerable investment knowledge and time on the part of the limited partner or investor. The largest institutional investors have investments in excess of 100 different venture capital funds and continually invest in new funds as they are formed.

Some limited partner investors may have neither the resources nor the expertise to manage and invest in many funds and, thus, may seek to delegate this decision to an investment advisor. This advisor will pool the assets of its various clients and invest these proceeds as a limited partner into a venture or buyout fund currently raising capital. Alternatively, an investor may invest in a "fund of funds," which is a partnership organized to invest in other partnerships, thus providing the limited partner investor with added diversification and the ability to invest smaller amounts into a variety of funds.

C3. Investments

Investment by venture funds into investee portfolio companies are made ("disbursed") from the fund until the fund is fully invested. An investee company may receive capital in one or more rounds of financing, perhaps even from the same fund. A venture firm may make these disbursements by itself or will co-invest in a company with other venture firms (co-investment or syndication). Often co-investment and syndication are necessary as the size of an investment may exceed the diversification restrictions of a fund. Typically a fund may invest only 10% to 15% of its capital in any one company, thus a $30 million fund may need to syndicate to co-investors when an investee company requires more than, say, a $3 to $4.5 million investment. This syndication provides more capital resources for the investee company. Firms co-invest because the company investment is congruent with the investment strategies of various venture firms and each firm will bring some competitive advantage to the investment. Thus, it is common for private equity and venture capital investment opportunities and activity to increase when there are many investment groups active in a market, and private equity investment firms often welcome other participants.

The venture firm will provide capital and management expertise and will usually also take a seat on the board of the company to ensure that the investment has the best chance of being successful. A portfolio company may receive one round, or in many cases, several rounds of venture financing during its development, as needed. Typically these rounds of financing are made at higher values each time if the investment is successful. A venture firm often reserves some of its committed capital for later investment in its successful investee companies with additional capital needs.

C4. Exit from Investments

Depending on the investment focus and strategy of the venture firm, it will seek to exit the investment in the portfolio company within approximately three to seven years of the initial investment. While the initial public offerings receive the most publicity as successful exits for the private equity and venture capitalist investors and owners of companies, the most successful exits of venture investments often occur through a merger or acquisition of the company by either the original founders or another company. This is often the result of the availability of a "control premium" in such sales, or simply the ability to negotiate a better value than the public trading markets offer, particularly in the emerging markets. The expertise of the venture firm in successfully exiting its investment is often as important a criteria for measurement of a private equity firm as the perceived quality of the investments the firm makes in the early stages of the funds it manages.

IPO. The initial public offering is the most visible type of exit for a venture investment. In a public offering, the venture firm may sell all, part, or none of its equity ownership in the investee company. Usually it is difficult for the venture firm to sell all of its ownership, thus "bailing-out" of the company. The venture firm is considered an insider and the stock it does not sell is often "restricted" from sale for some period, and then must be sold in market sales related to the volume of trading in the stock on the market. Often, venture funds will not sell all of their investment interests and will distribute this stock or cash to their limited partners or investors, who may also have to hold it as restricted stock, it then becoming their responsibility to hold or sell it based on their freedom to do so.

Strategic Sales/Mergers. Strategic sales and mergers represent the most common type of successful exit for venture investments. In the case of a sale or merger, the venture firm will receive stock or cash from the acquiring company and the venture investor will distribute the proceeds from the sale to its limited partners or investors. Usually these proceeds do not have the restrictions that arise in the disposition of stock created in an initial public offering.

C5. Valuations

Like a mutual fund, each venture fund has a net asset value, or the value of an investor's holdings in that fund at any given time. However, unlike a mutual fund, this value is not determined through a public market transaction, but through a valuation of the underlying portfolio. The investment is illiquid and at any point, the partnership may have both private companies and the stock of public companies in its portfolio. These public stocks may be subject to restrictions for a holding period and are thus subject to a liquidity discount in the portfolio valuation.

Each company is valued at an agreed-upon value between the venture firms when invested in by the venture fund or funds. In subsequent quarters, the venture investor will usually keep this valuation intact until a material event occurs to change the value. Venture investors try to conservatively value their investments using guidelines or standard industry practices and by terms outlined in the prospectus of the fund. The venture investor is usually conservative in the valuation of portfolio companies.

C6. Management Fees

As an investment manager, the general partner of the venture firm will typically charge a management fee to cover the costs of managing the committed capital. The management fee will usually be paid quarterly for the life of the fund or it may be tapered or curtailed in the later stages of a fund's life. This is most often negotiated with investors upon formation of the fund in the terms and conditions of the investment. Management fees range as high as 2.5% per year, and are typically at the higher end of the range in emerging markets where private equity direct investment activity is more difficult, if only because it is less common, than in developed markets.

C7. Carried Interest

Carried interest is the term used to denote the profit split of proceeds to the management company or general partner. This is the general partners' fee for carrying the management responsibility plus all the liability, and for providing the needed expertise to successfully manage the investment. There are as many variations of this profit split both in the size and how it is calculated and accrued as there are firms. A relatively common yardstick however is to split the increased value of investments 80% to the investors and 20% to the management company, after the investors have achieved a negotiated "hurdle rate" of return on their investment.

D. Stages of Venture Capital Investment

Venture capital firms/funds may be generalist or specialist investors depending on their investment strategy. As generalists, firms investing various industry sectors, or various geographic locations, or various stages of a company's life. Alternatively, they may be specialists in one or two industry sectors, or may seek to invest in only a localized geographic area. Some venture firms will invest in companies that are in their initial start-up modes, and other venture firms will invest in companies at various stages of the business life cycle.

1. *Seed Investment.* A venture firm may focus on investing small amounts of capital with an inventor or entrepreneur before there is a real product or company organized (so-called seed investing).

2. *Early Stage Investing.* Often venture firms provide capital to start up a company in its first or second stages of development for the purpose of product development and marketing (known as early stage investing.)

3. *Expansion Stage Financing:* Venture firms provide needed financing to satisfy typical corporate needs for more equipment and inventory to help investee companies grow beyond the break-even point to become more successful and profitable (expansion stage financing).

4. *Rapid Growth Stage Investing.* Venture firms may invest in a company throughout the company's life cycle. Some funds focus on later stage investing by providing financing to help the company grow to a critical mass to attract public financing through a stock offering. Alternatively, the venture capital may help the company arrange an IPO, strategic sale or merger with another company, or facilitate such a transaction by providing liquidity and exit opportunities for the company's founders.

5. *Seasoned companies:* Venture and private equity firms may invest in private companies (and even in new issues of shares of public companies) when they perceive unusual growth, reorganization or other market opportunities. These transitions can often be linked with management and leveraged buyouts of an entire company, looking toward realizing the growth, reorganization, or sale potential of the company.

6. *Turnaround or Recapitalization/Rescue Investing:* At the other end of the spectrum, some venture and private equity funds specialize in the turnaround or recapitalization and rescue

of public and private companies that may represent favorable investment opportunities, but are undervalued or not performing profitably (or profitably enough) due to poor management, poor product design, and/or positioning, poor marketing, and distribution, or other perceived problems. These turnaround funds and investors usually have a clear business plan in mind to realize a successful result when they identify and make such investments, where capital may be a key ingredient in creating the needed turnaround. There are venture funds that will be broadly diversified and will invest in companies in various industry sectors as diverse as semiconductors, software, retailing and restaurants and others that may be specialists in only one technology.

In developed markets, venture firms come in various sizes from specialist firms for making small seed investments capitalized at only a few million dollars under management to firms with over a billion dollars in invested capital around the world. The common denominator in all of these types of private equity and venture investing is that the investors are not passive investors, but have active and vested interests in guiding, leading, and growing the companies in which they have invested. They seek to add value through their experience in investing in tens and hundreds of companies.

Some venture firms are successful by creating synergies between the various companies they have invested in; for example one company that has a great software product, but does not have adequate distribution technology may be paired with another company or its management in the venture portfolio that has better distribution technology.

E. Turnaround Funds

Turnaround funds are simply another form of a specialist private equity investment fund. Turnaround funds are targeted to invest in companies that are facing problems or incurring losses, but have the potential to post profits with the right management and funding inputs. This type of investment will again have a higher risk and higher return nature, providing the typical profile commonly found with private equity investors. Turnaround funds are usually also close-ended funds, usually with a lock-in of between 5 to 10 years, and targeted mainly at high-potential companies which have difficulties in raising money from the capital markets and commercial banks.

A company is ripe for a major turnaround, and or rescue, if one or more of the following conditions are fulfilled:

- Weak-or negative-financial indicators, e.g. return on sales, return on assets, return on investments.
- Unclear or non existing long term vision and strategy
- Bad fit between the products and/or services’ portfolio of the company and its business strategy
- Poor management skills
- Lack of decision power in the senior management team
- Inefficient internal process and unclear accountabilities
- Poor employee motivation

F. Turnaround Strategies in Emerging Markets

Turnaround funds often focus on opportunities in emerging markets, as companies in these markets often exhibit characteristics that managements experienced in turnaround investments see in companies that have fallen on hard times in other markets. These turnaround opportunities/characteristics often arise from one of the following four areas:

F1. Business Strategy

A company in need of turnaround skills usually lacks a clear, long-term business strategy. This could be partially due to uncertainties of the economic environment. Top management is usually unaware of its role as a strategist and lacks internal marketing skills. This leads to a false perception of the market and real market needs and hence contributes to difficulty in creating a comprehensive, fact-based strategy.

F2. Organization & Accountability

A widespread phenomenon among large, particularly state-owned enterprises is diffuse corporate governance. In the absence of clearly defined, measurable short- and medium-term goals, the top management often suffers from a no-consequences policy. The lack of clear goals, measurement of progress towards them, and incentive systems tied to them is also common in the middle and lower corporate ranks. Without appropriate guidance from the top management, there will be no success in motivating successful corporate performance.

What is needed is a combination of theoretical training and hands-on managerial experience in a professional setting—ideally linked to a responsibility within the turnaround project itself.

F3. Systems & Processes

Most enterprises usually have extremely heterogeneous systems and processes. One of the most underdeveloped and underestimated areas remains management accounting/control systems. Installing a results-oriented management system—divided into cost or profit centers if necessary—will be a major task right after the definition of the business strategy and the key performance indicators. The cost base is often negatively impacted by inefficient internal work processes, with redundant work and unclear responsibilities. Simple process mapping and improvement techniques have proven extremely effective not only for streamlining the business, but also as a communication vehicle between management and employees.

F4. Culture

One of the major hurdles to be dealt with in a turnaround is the lack of ownership and an ingrained fear of change. The lack of ownership—meaning a poor identification of the employees with the firm's goals—leads to weak accountability at all hierarchical levels.

The following pattern of action is often followed by a turnaround firm/fund to recover the profitability of a company facing difficulty:

- Observation and analysis of current situation and needs.
- Defining sources of the dangerous condition with clear identification of recommended solutions.

- Correction of the problems and ensuring non-reoccurrence, focusing on planning systems and strategies.
- Education of management and key staff and enhance their skills to meet future demands.
- Assisting top management to form and adopt policies that will detect and prevent the situation from recurring, including strategic planning, setting objectives, cost strategies and quality.
- Creation of a vision and business strategy for the future.

G. Turnaround Firms/Fund Methodology

1. An expert in turnaround situations, who is likely to have fresh ideas for strategic, structured, and process changes will be appointed. This outside expert—who lacks loyalty to the old strategies—may be willing to implement difficult, and sometimes, unpopular decisions.

2. Turnaround for companies whose performance is deteriorating implies renewed growth after all corrective measures, e.g. restructuring of core activities, human resources cuts, consolidation, etc.

3. Turnaround invariably requires that costs are reduced. New efficiencies must be found. Assets could be sold, businesses could be disposed of, properties could be sold for cash and leased back on a long-term lease from some form of investment company. Revenues can be generated by collecting outstanding accounts.

4. Turnaround can be achieved through new products and new ideas, or simply better marketing. In many instances—as long as quality and services are managed better—prices can be increased to raise margins. Some organizations will use the cash generated by business disposals to buy new, and more related, businesses.

5. Turnaround sometimes involve either management buy-outs (the sale to the company's existing managers) or management buy-ins (a new management team rather than another company acquires the business). Both require substantial funding from venture capital or private equity investors, who are looking typically for pay back of their investment in a limited number of years. This pay back sometimes involves the re-flotation of the business, when this happens it is often very lucrative for the managers who have invested in the business.

6. Turnaround plan of action usually involves four stages:

- Galvanization of resources—recognizing the dimensions of the problem and being willing and ready to take the necessary actions, often implying a change of leadership.
- Simplifying the situation by divesting non-core activities.
- Building new competitive opportunities.
- Leveraging new-found competence to fuel growth.

H. Creating Successful Private Equity Investment Environments

It is clear from this outline that private equity funds can provide needed capital for new companies, growth for existing companies, and turnaround investments required for troubled companies. In all of these cases, however, the management of these funds are sophisticated investors who require legal and regulatory protections if there is going to be much private equity capital raised and managed successfully in any given market. Thus, shareholder protections in corporate governance provisions, protection against self-dealing, and other minority shareholder protections must be coupled with effective enforcement procedures to prevent abuses. This usually requires arbitration procedures in countries with slow or ineffective judicial systems, and even special enforcement procedures for awards resulting from arbitration. Sophisticated investors who lack recourse in the event of fraud or other abuse will hesitate to commit significant funds to markets where adequate investor protections are not evident.